



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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JOHN NAIMO
ACTING AUDITOR-CONTROLLER

September 24, 2014

TO: Supervisor Don Knabe, Chairman
Supervisor Gloria Molina
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Michael D. Antonovich

FROM: John Naimo
Acting Auditor-Controller

A handwritten signature in cursive script, reading "John Naimo", is written over the printed name and title.

SUBJECT: **INTERNAL SERVICES DEPARTMENT – COMMITMENTS, ACCOUNTS
PAYABLE, AND TRUST ACCOUNTS FOLLOW-UP REVIEW**

We have completed a follow-up review of the Internal Services Department's (ISD or Department) progress in implementing the ten recommendations from our November 2011 report on the Department's commitments, accounts payable, and trust accounts. ISD's response to our 2011 report indicated that they implemented, or were in the process of implementing all ten of the recommendations. However, during our follow-up review we noted that ISD has only implemented four (40%) recommendations. ISD has partially implemented two (20%) recommendations, and has not implemented the remaining four (40%) recommendations. ISD's implementation status for the ten recommendations is included in Attachment I.

We discussed the results of our follow-up review with ISD management. ISD's attached response (Attachment II) indicates general agreement with our findings. We thank ISD management and staff for their cooperation and assistance during our review. Please call me if you have any questions, or your staff may contact Robert Smythe at (213) 253-0101.

JN:AB:RS:YK

Attachments

c: William T Fujioka, Chief Executive Officer
Jim Jones, Director, Internal Services Department
Public Information Office
Audit Committee

**INTERNAL SERVICES DEPARTMENT
COMMITMENTS, ACCOUNTS PAYABLE, AND TRUST ACCOUNTS
FOLLOW-UP REVIEW**

Background and Scope

In November 2011, we completed a review of the Internal Services Department's (ISD or Department) commitments, accounts payable, and trust funds. The purpose of our review was to determine whether the Department complied with County Fiscal Manual (CFM) requirements. Our report identified ten recommendations for improving fiscal processes and internal controls.

We have completed a follow-up review of the Department's progress in implementing the ten recommendations from our report. Our follow-up review included interviewing ISD management and staff, examining records, and evaluating oversight.

Recommendation Implementation Status

ISD fully implemented four (40%) recommendations, partially implemented two (20%) recommendations, and has not implemented four (40%) recommendations. The following are the ten recommendations and their implementation status.

Commitments and Accounts Payable

Recommendation 1

Internal Services Department management instruct fiscal staff on County Fiscal Manual requirements for establishing encumbrances and commitments.

Current Status: IMPLEMENTED

ISD reinstructed fiscal staff on CFM requirements for establishing encumbrances and commitments. We also reviewed 20 commitments and noted that ISD had appropriately established the initial encumbrances for the commitments.

Recommendation 2

Internal Services Department management ensure that accounts payable are only established if goods and services are received by fiscal year-end.

Current Status: NOT IMPLEMENTED

We reviewed ten accounts payable ISD established at the end of Fiscal Year (FY) 2012-13. We noted that for three (30%) accounts payable, ISD should not have established all, or part of, the payables, totaling \$340,100, because they did not receive the goods or services until the next fiscal year. It should be noted that ISD's compliance rate has

diminished compared to our initial review, which indicated that 13% of accounts payable tested should not have been established.

Recommendation 3

Internal Services Department management review commitments and accounts payable to ensure they are accurate for budget and expenditure recognition purposes, and cancel or reduce commitments and payables that are no longer needed.

Current Status: NOT IMPLEMENTED

We reviewed 20 commitments and noted that ISD should have canceled or reduced all, or part of, nine (45%) of the commitments, totaling \$1.3 million. Six commitments were no longer needed and three commitments should have been recorded as accounts payable because the goods and services were received. It should be noted that ISD's compliance rate has remained relatively the same compared to our initial review.

Trust Accounts

Recommendation 4

Internal Services Department management develop and maintain documentation indicating the purpose and authority of each trust account, and ensure that trust accounts are used correctly.

Current Status: IMPLEMENTED

ISD appropriately documented the purpose and authority of all active trust accounts. In addition, we interviewed staff and reviewed trust transactions, and noted that the trust accounts were used correctly.

Recommendation 5

Internal Services Department management develop and maintain detailed subsidiary ledgers and a control account for all trust accounts, and reconcile records to the electronic Countywide Accounting and Purchasing System (eCAPS) monthly.

Current Status: PARTIALLY IMPLEMENTED

In our original report, we noted that ISD did not have detailed subsidiary ledgers for six trust accounts, and the reconciliations were limited to comparing eCAPS reports to hard copy deposit, transfer, and disbursement documents. During this follow-up review, we noted ISD appropriately developed subsidiary records and completed reconciliations for

five (83%) of the six trust accounts in question. The remaining trust account was a lockbox clearing account that had a \$1.8 million balance at the end of June 2014.

Recommendation 6

Internal Services Department management ensure trust account reconciliations are reviewed and approved by a supervisor with no other trust account responsibilities.

Current Status: PARTIALLY IMPLEMENTED

In our original report, we noted that the employee who approved trust reconciliations also approved trust disbursements. While ISD removed the conflicting responsibilities, during this follow-up review, we noted that another employee could approve trust reconciliations, disbursements, and transfers. ISD plans to remove these conflicting responsibilities.

Recommendation 7

Internal Services Department management instruct fiscal staff to transfer earned revenue held in trust to revenue accounts timely.

Current Status: NOT IMPLEMENTED

We reviewed ten revenue transfers from trust accounts, and noted that two (20%) of the transfers, totaling \$1.4 million, were made an average of 71 days after the revenue was earned. It should be noted that ISD's compliance rate has diminished compared to our initial review, which indicated that 9% of revenue transfers tested were made 62 days after revenue was earned.

Recommendation 8

Internal Services Department management ensure each employee can only provide one eCAPS payment approval for trust disbursements.

Current Status: IMPLEMENTED

We reviewed eCAPS security reports and noted that ISD employees can only provide one payment approval for trust disbursements.

Recommendation 9

Internal Services Department management ensure that trust disbursement supporting documentation is marked "paid" to prevent reuse.

Current Status: **IMPLEMENTED**

We reviewed ten disbursements from trust accounts and noted that although ISD did not mark supporting documentation “paid”, they did notate eCAPS document identification numbers to prevent reuse.

Internal Control Certification Program

Recommendation 10

Internal Services Department management ensure Internal Control Certification Program (ICCP) questionnaires are accurately completed, all internal control weaknesses are identified and an improvement plan is developed to address each weakness.

Current Status: **NOT IMPLEMENTED**

ISD’s FY 2012-13 ICCP did not identify all control weaknesses we noted above. Many of the control weaknesses should have been identified when ISD completed the ICCP.



JIM JONES
Director

County of Los Angeles
INTERNAL SERVICES DEPARTMENT


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September 22, 2014

To: John Naimo
Acting Auditor-Controller

From: Jim Jones 
Director

Subject: **RESPONSE TO THE AUDITOR-CONTROLLER COMMITMENTS,
ACCOUNTS PAYABLE AND TRUST ACCOUNTS FOLLOW-UP
REVIEW**

We are generally in agreement with the results and recommendations of your report.

Since your follow-up review we have taken or initiated actions to comply with your recommendations and County fiscal policy. Please refer to the attachment for our responses to the recommendations contained in your report.

If you need any additional information, please contact me or your staff may contact Dave Yamashita at (323) 267-2136.

JJ:DY:ch

Attachment

INTERNAL SERVICES DEPARTMENT

**RESPONSE TO THE A-C COMMITMENTS, ACCOUNTS PAYABLE
AND TRUST ACCOUNTS FOLLOW-UP REVIEW**

Recommendation 2: Internal Services Department management ensures that accounts payables are only established if goods and services are received by fiscal year-end.

A-C Status: NOT IMPLEMENTED

ISD Response:

We concur.

ISD Fiscal staff will provide further guidance to the department's Materials Management Section on the proper manner of establishing accounts payable and commitments in accordance with the County Fiscal Manual (CFM) requirements.

Additionally, training for ISD Receivers will be provided annually to reinforce the CFM requirements for establishing accounts payable and commitments. These trainings will occur in March of every year in preparation for the fiscal year-end processes.

Target Date: March 31, 2015

Recommendation 3: Internal Services Department management review commitments and accounts payable to ensure they are accurate for budget and expenditure recognition purposes, and cancel or reduce commitments and payables that are no longer needed.

A-C Status: NOT IMPLEMENTED

ISD Response:

We concur.

The ISD General Accounting Section Manager will be responsible for reviewing and ensuring that the encumbrances are categorized correctly prior to establishing commitments and accounts payables in eCAPS. In addition, the ISD General Accounting Section Manager or a designated supervisor will work closely with ISD Planning and Administration Managers to validate the justifications for establishing or maintaining commitments and payables and to cancel or reduce the commitments and payables that are no longer needed.

Target Date: June 30, 2015

INTERNAL SERVICES DEPARTMENT

**RESPONSE TO THE A-C COMMITMENTS, ACCOUNTS PAYABLE
AND TRUST ACCOUNTS FOLLOW-UP REVIEW**

Recommendation 5: Internal Services Department management develop and maintain detailed subsidiary ledgers and a control account for all trust accounts, and reconcile records to the Countywide Accounting and Purchasing System (eCAPS) monthly.

A-C Status: PARTIALLY IMPLEMENTED

ISD Response:

We concur.

ISD performs six trust account reconciliations on a monthly basis. Detailed subsidiary ledgers are now being maintained, including for the TK7-7181 trust account, where each deposit, transfer, and disbursement is posted to the subsidiary. Additionally, these ledgers are being reconciled to eCAPS and TTC reports at the end of each month.

Target Date: Completed

Recommendation 6: Internal Services Department management ensures trust account reconciliations are reviewed and approved by a supervisor with no other trust account responsibilities.

A-C Status: PARTIALLY IMPLEMENTED

ISD Response:

We concur.

Effective immediately, the responsibility for reviewing and approving the V30 and V69 trust accounts reconciliations has been assigned to the newly hired Accounting Officer II (ISD Billing Section) who does not have any other trust account responsibilities, including trust warrant approval capabilities in eCAPS.

Target Date: Completed

Recommendation 7: Internal Services Department management instructs fiscal staff to transfer earned revenue held in trust to revenue accounts timely.

A-C Status: NOT IMPLEMENTED

ISD Response:

We concur.

**INTERNAL SERVICES DEPARTMENT
RESPONSE TO THE A-C COMMITMENTS, ACCOUNTS PAYABLE
AND TRUST ACCOUNTS FOLLOW-UP REVIEW**

ISD Fiscal staff has been instructed to transfer funds to the appropriate revenue accounts timely after the revenue sources are identified. To ensure that transfers are timely, ISD General Accounting Unit Supervisor will review the monthly trust account reconciliations and follow through on reconciling items.

Target Date: Completed

Recommendation 10: Internal Services Department management ensure Internal Control Certification Program (ICCP) questionnaires are accurately completed, all internal control weaknesses are identified and an improvement plan is developed to address each weakness.

A-C Status: NOT IMPLEMENTED

ISD Response:

We concur.

ISD will ensure that the ICCP questionnaires are accurately completed and that all internal control weaknesses are identified. Upon completion of the next ICCP questionnaires, ISD Finance management and Internal Affairs will analyze the questionnaires thoroughly, including a review of sample transactions, to ensure its integrity and to develop an action plan to address each weakness.

Target Date: June 30, 2015